

Regulation Docket No. 59
Revenue Decoupling Staff Issue List
May 16, 2007

Issues identified at the initial meeting by the Hearing Examiner to be addressed as part of the May 16 Presentation:

- Specifically address whether conservation mechanisms should be in hands of utilities or another office
- Why is it or isn't it appropriate from a public policy standpoint to compensate utilities for lack of use of their products
- Background on RD structure, success (in terms of conservation, quantification of conservation flowing from RD) in 17 states where implemented

Staff Revenue Decoupling Issues:

Procedural/Legal:

- Examine whether the implementation of a revenue decoupling mechanism is a departure from traditional ratemaking and allowable under the existing statute – Title 26 of the Delaware Code. Traditional ratemaking balances the utility's opportunity to earn its authorized rate of return through revenues remaining after the level of sales, revenues, expenses and capital costs are examined and set as part of a base rate proceeding.
- Is a revenue decoupling mechanism more consistent with a performance based ratemaking approach than traditional cost based regulation?
- What effect will the implementation of a revenue decoupling mechanism have on the frequency of future base rate proceedings, if any?
- How will the revenue decoupling mechanism affect intra- and inter-class allocations in future cost of service studies and rate design within the context of a base rate proceeding?
- What impact does implementation of an RD have on the utility's risk for sales fluctuations and associated revenues? What is an appropriate adjustment to the approved Return on Equity in terms of basis points?

Decoupling Basis/Alternatives to be considered:

- Has the utility clearly demonstrated a history of promoting energy efficiency and conservation prior to the potential for implementation of a revenue decoupling mechanism?
- What other approaches can be considered to encourage the utility to promote energy efficiency and conservation? These might include lost base revenue recovery, incentives for superior performance; a return on funds invested in efficiency, some addition to the authorized return on equity, additional assurance

- of cost recovery through rate design such as increased customer charges and higher initial block rates, etc., all after an exemplary program with demonstrated results is put into operation.
- Should energy efficiency and conservation efforts be administered by the utilities or an independent agency? Consider the programs currently available through the Delaware Energy Office and the Delaware Sustainable Energy Utility Task Force.

Concerns with RDs:

- Do all utility customers benefit from a revenue decoupling mechanism? (a) how do utility conservation and efficiency efforts overcome market barriers faced by subsets of customers, such as renters, customers who cannot take on more debt, low-income customers, small business, etc., and to what extent will such customers participate in and benefit from such utility efforts; and (b) in light of the potential benefits to participating customers and to non-participants (i.e. system benefits, as they may be allocated), can all customers benefit equally from conservation and efficiency efforts induced by revenue decoupling? If not, can all customers benefit? If not, will no customer lose? If not, is revenue decoupling and resulting energy efficiency and conservation still justified?
- Are RDs feasible for both natural gas and electric utilities? For utilities with investments in supply sources (that will accordingly reap savings from avoided supply needs) and for those without such avoidable costs?
- How can a clear quantification of the impact of utility energy efficiency and conservation efforts and the theoretical impact on utility revenues be measured and isolated from other factors such as the normal business risk of warmer weather, etc.?
- Should such a mechanism be limited to the Residential and Commercial customer service classes? Reasons why or why not.
- Does such a mechanism send the appropriate price signal to customers when the delivery and portion of their bill goes up even though they are making the effort to conserve? Recognizing that any savings would come in the commodity portion of the bill, all things held equal.